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In the Supreme Court of the United States

OCTOBER TERM, 1961.

No. 759

SWITZER BROTHERS, INC., ROBERT C. SWITZER, and JOSEPH L. SWITZER,

Petitioners,

v.

HARRY P. LOCKLIN and ELMER J. BRANT, general partners doing business under the firm name of RADIANT COLOR COMPANY,

Respondents.

PETITION FOR A WRIT OF CERTIORARI

To the United States Court of Appeals for the Seventh Circuit.

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To the United States Court of Appeals for the Seventh Circuit.

Counsel for petitioners pray that a writ of certiorari issue to review the judgment of the United States Court of Appeals for the Seventh Circuit entered in the above case on November 30, 1961.

OPINIONS BELOW.

The opinion of the Court of Appeals for the Seventh Circuit is appended hereto. The District Court for the Northern District of Illinois, Eastern Division, wrote no opinion but its findings of fact, conclusions of law, and judgment are set forth in full at pages 347-361 of the Appendix filed with this petition. The opinion of the Court of Appeals for the Seventh Circuit is reported at 131 U. S. P. Q. 405. The District Court's findings have not been reported.

JURISDICTION.

No applications for rehearing have been filed. The jurisdiction of this Court is invoked under 28 U. S. C. § 1254(1).

THE QUESTIONS PRESENTED FOR REVIEW.

The questions presented for review are:

(1) Whether petitioners, in launching a new enterprise, violated the anti-trust laws by issuing trademark licenses which also granted ancillary clearance under any and all of the trademark licensors' patents and applications. Such licenses contained reasonable provisions to control the nature and quality of the goods sold under the licensed trademark.

(2) Whether petitioners' label licenses which granted a royalty paid patent license to the purchaser of petitioners' patented materials to use such materials in the manufacture of devices covered by petitioners' patents violated the antitrust laws.

(3) Whether petitioners should be held to respond in treble damages to the respondents for attorney fees and other costs voluntarily incurred in defending two infringement suits filed against respondents' customers by petitioners (as the District Court expressly found) in good faith and in the belief and understanding that their said patents were valid and their actions warranted by the scope of their patent claims and the patent laws of the United States.

THE STATUTES INVOLVED HEREIN.

The statutes involved herein are:

15 U. S. C. A.

§ 1. Trusts, etc., in restraint of trade illegal; exception of resale price agreements; penalty.

Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is declared to be illegal: *Provided*, That nothing contained in Sections 1-7 of this title shall render illegal, contracts or agreements prescribing minimum prices for the resale of a commodity which bears, or the label or container of which bears, the trade mark, brand, or name of the producer or distributor of such commodity and which is in free and open competition with commodities of the same general class produced or distributed by others, when contracts or agreements of that description are lawful as applied to intrastate transactions, under any statute, law, or public policy now or hereafter in effect in any State, Territory, or the District of Columbia in which such resale is to be made, or to which the commodity is to be transported for such resale, and the making of such contracts or agreements shall not be an unfair method of competition under Section 45 of this title: *Provided further*, That the preceding proviso shall not make lawful any contract or agreement, providing for the establishment or maintenance of minimum resale prices on any commodity herein involved, between manufacturers, or between producers, or between wholesalers, or between brokers, or between factors, or between retailers, or between persons, firms, or corporations in competition with each other. Every person who shall make any contract or engage in any combination or conspiracy declared by Sections 1-7 of this title to be

illegal shall be deemed guilty of a misdemeanor, and, on conviction thereof, shall be punished by fine not exceeding fifty thousand dollars, or by imprisonment not exceeding one year, or by both said punishments, in the discretion of the court. As amended July 7, 1955, c. 281, 69 Stat. 282.

§ 2. Monopolizing trade a misdemeanor; penalty.

Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty of a misdemeanor, and, on conviction thereof, shall be punished by fine not exceeding fifty thousand dollars, or by imprisonment not exceeding one year, or by both said punishments, in the discretion of the court. As amended July 7, 1955, c. 281, 69 Stat. 282.

§ 14. Sale, etc., on agreement not to use goods of competitor.

It shall be unlawful for any person engaged in commerce, in the course of such commerce, to lease or make a sale or contract for sale of goods, wares, merchandise, machinery, supplies, or other commodities, whether patented or unpatented, for use, consumption, or resale within the United States or any Territory thereof or the District of Columbia or any insular possession or other place under the jurisdiction of the United States, or fix a price charged therefor, or discount from, or rebate upon, such price, on the condition, agreement, or understanding that the lessee or purchaser thereof shall not use or deal in the goods, wares, merchandise, machinery, supplies, or other commodities of a competitor or competitors of the lessor or seller, where the effect of such lease, sale, or contract for sale or such condition, agreement, or understanding may

be to substantially lessen competition or tend to create a monopoly in any line of commerce. Oct. 15, 1914, c. 323, § 3, 38 Stat. 731.

§ 15. Suits by persons injured; amount of recovery.

Any person who shall be injured in his business or property by reason of anything forbidden in the antitrust laws may sue therefor in any district court of the United States in the district in which the defendant resides or is found or has an agent, without respect to the amount in controversy, and shall recover threefold the damages by him sustained, and the cost of suit, including a reasonable attorney's fee. Oct. 15, 1914, c. 323, § 4, 38 Stat. 731.

§ 1055. Use by related companies affecting validity and registration.

Where a registered mark or a mark sought to be registered is or may be used legitimately by related companies, such use shall inure to the benefit of the registrant or applicant for registration, and such use shall not affect the validity of such mark or of its registration, provided such mark is not used in such manner as to deceive the public. July 5, 1946, c. 540, Title I, § 5, 60 Stat. 429.

§ 1127. Construction and definitions; intent of chapter.

In the construction of this chapter, unless the contrary is plainly apparent from the context—

* * * * *

The term "related company" means any person who legitimately controls or is controlled by the registrant or applicant for registration in respect to the nature and quality of the goods or services in connection with which the mark is used.

* * * * *

35 U. S. C. A. § 271:

* * * * *

(c). Whoever sells a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial non-infringing use, shall be liable as a contributory infringer.

(d) No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: (1) derived revenue from acts which if performed by another without his consent would constitute contributory infringement of the patent; (2) licensed or authorized another to perform acts which if performed without his consent would constitute contributory infringement of the patent; (3) sought to enforce his patent rights against infringement or contributory infringement. July 19, 1952, c. 950, § 1, 66 Stat. 811.

STATEMENT OF FACTS.

Petitioner, Switzer Brothers, Inc., is an Ohio corporation, solely owned by the two individual petitioners, who are likewise officers and directors. It is engaged in the manufacture and sale of daylight fluorescent products comprising pigments, paints, and inks. "Daylight Fluorescence" is a term coined by the individual petitioners to designate a special and peculiar color phenomenon, different from ordinary color and from fluorescence, for which

no equivalent term existed in the technical literature. It involves both ordinary color and fluorescence.

"Ordinary Color." Ordinary white light, i.e., daylight, is a mixture of *visible* radiations of light, increasing in wave lengths from violet through blue, green, yellow, orange and red, as in the rainbow. There are also present in daylight various *invisible* radiations, namely ultraviolet (i.e. "black light"), which is of shorter wave length than visible violet, and infra-red, which is of longer wave length than visible red. When white light is the illuminating radiation, ordinary colors (sometimes referred to as "subtractive" colors) appear as they do because the pigment or dye *predominantly reflects* wave bands of one or more hues and absorbs (i.e. "subtracts") the others. Thus, an ordinary pure red object appears red in daylight because it selectively reflects only the incident red; and its brightness depends upon the proportion of incident red reflected (60% reflection would be a very bright, pure red). Other colors selectively reflect other wave bands. Thus, orange reflects orange light, red-orange reflects red and orange light, purple reflects red and blue, etc. (App. 35-37).

"Fluorescence." Prior to the development of "daylight fluorescence," objects were known to exhibit color by still other phenomena, such as, for example, fluorescence. Fluorescence is the "*emission* of light by illuminated substances in which the emitted light is of a color not present in the illuminating radiation" (*Encyclopedia Britannica*, Vol. 9, p. 422, 14th Ed. (1949), App. 37-38). A well-known use of fluorescence is in theatrical costumes which glow under sources of invisible "black light" when the stage is darkened (*Marzall v. Switzer*, 199 F. 2d 776 (D. C. Cir. 1952)).

Thus ordinary color and fluorescence are, by definition, mutually exclusive phenomena. Ordinary color is a reflection of a band of light *present* in the incident illumination, and fluorescence is the emission of a band *not present* in the incident illumination.

"Daylight Fluorescence." Daylight Fluorescence involves both selective reflection of a band present in the incident daylight *plus* emission of light, of substantially *the same hue*, in response to wave lengths of daylight that would ordinarily be "subtracted" by absorption. The *sum* of red light *reflected* and *emitted* by a red daylight fluorescent device normally exceeds the total amount of red light present in the incident daylight. This sum can be as much as 150% of the red in the incident light present. Therefore, a daylight fluorescent color is much brighter than the ordinary color of the same hue. In consequence, a daylight fluorescent device has two unique and unusual characteristics: (a) it strikes the eye and attracts attention at any distance, and (b) it is visible and distinguishable *by its color* at distances well beyond (sometimes several times) the range at which the same device, if of an ordinary color, could be so distinguished.

The individual petitioners were pioneers in the development of daylight fluorescent materials and devices. In their original work they learned that daylight fluorescent materials were extremely sensitive and most fugitive to the very daylight which activated them. Sunlight would quickly discolor or bleach the materials so that at the end of a short period of time the colors lost their exceptional eye-attracting daylight fluorescence. They found that "light fastness" could only be achieved by precisely formulating the daylight fluorescent materials and by careful application and use of such materials in the

production of daylight fluorescent devices. They, from the beginning, labored steadfastly to improve light fastness. By 1938 they had developed fabrics that would endure a few hours of exposure to sunlight and still exhibit useful daylight fluorescence (App. 60-62). Their fabrics had marked success during World War II for recognition communication between ground forces and cooperating air forces.

At the close of the war they foresaw a promising future in the commercial use of their pigmented inks and paints in outdoor advertising and displays. Their products at that time had a fair degree of stability in daylight but to be salable commercially *a minimum of thirty days stability was essential* and this could only be achieved by the most careful formulation and utilization of materials and their application. The use of inferior materials or the dilution or adulteration of high grade materials or the failure to apply the material in sufficient thickness would cause the finished device, although often satisfactory in initial appearance, to quickly fade and the extraordinary brightness of the materials would disappear after brief exposure to sunlight.

By reason of contractual limitations made during the war years the petitioners were unable to launch this enterprise in the United States but were free to do so in Canada. Therefore, in 1947, petitioners first undertook to market their paints and inks in Canada through normal distribution channels. They also issued and distributed complete and detailed instructions to users as to the use and application of these products and as to their limitations.

The market in Canada originally welcomed the daylight fluorescent paints and inks and sales sky-rocketed. However, many failures soon occurred due to wide-spread

misuse and disregard of these instructions and misunderstanding of the inherent limitations of the devices. This resulted in such dissatisfaction and ill will that this market for Switzer products virtually disappeared in a few months. By the end of 1948 the venture had failed (App. 68-69).

Petitioners were thereby forced to recognize that the development of a commercially successful business in the United States depended entirely upon petitioners' ability to convince (and insure to) the advertiser that petitioners' daylight fluorescent colors did actually possess the requisite stability for limited outdoor use when properly applied, and that such application could and would be controlled. Thus, an advertiser who desired a poster for a thirty day outdoor display should be able to rely on the fact that the daylight fluorescent colors would retain their characteristics of unusual brightness for that period. Control of the type and quality of the finished display was recognized as essential (App. 69-70).

In 1944 petitioners coined the word "DAY-GLO" to characterize their daylight fluorescent materials and used it thereafter as a trademark for their products. They applied for registration in the United States and registration was first granted on August 10, 1948. This was for daylight fluorescent fabrics. Subsequently they applied for additional registrations of the DAY-GLO name for other products including paints, ink, paper, etc., which were granted. As early as 1938 the individual petitioners had begun filing and prosecuting patent applications in the daylight fluorescent field. Extensive proceedings were had in the Patent Office and the earlier applications were divided and re-divided, but eventually numerous patents were issued in the United States, the earlier ones being as follows:

Exh.	No.	Patent No.	Subject Matter	Application Date	Patent Date
PX	30	2,277,169	Printing Process and Device	8- 2-38	3-24-42
PX	31	2,302,645	Printing Process	8- 2-38	11-17-42
PX	32	2,417,383	Coated Fabric	11-25-42	3-11-47
PX	33	2,417,384	Display Device	7-16-43 Derived From 2- 9-39 Appl.	3-17-47
PX	34	2,475,529	Paper	10-9-41 Derived From 9- 7-38 Appl.	7- 5-49
PX	35	2,498,592	Pigments Paints Devices	1-30-45 Derived From 10 -9-41 Appl.	2-21-50
PX	35A	2,498,593	Resinous Sheets	2-23-49 Derived From 10- 9-41 Appl.	2-21-50
PX	36	2,629,956	Printing Process Display Device	2-25-43 Derived From 3-10-42 Appl.	3- 3-53

The '384 patent (App. 145) and the '529 patent (App. 149) are the two patents held by the courts below to have been misused. The '384 patent is on a "Daylight Fluorescent Signalling and Display Device" and the several claims each cover "A device for conveying intelligence visually in daylight beyond the range of subtractive color perceptibility comprising * * *." There follow descriptions of several devices utilizing various backing sheets, i.e., paper, fabric, etc., each coated with a fluorescent dye in a visible light responsive fluorescent state imparting a daylight fluorescent color. The '529 patent is on a "Fluorescent Device and Method of Making the Same." The claims cover the utilization of daylight fluorescent coated paper in such device.

The cornerstone of the initial Switzer venture in the United States, which began late in the fall of 1948, was the control of the nature and quality of the ultimate daylight fluorescent device, i.e., the end product in whatever form it appeared—poster, sign, ornamental object, etc. (App.

69-71). As established by the Canadian experience, the use of inferior material or adulteration of quality material would result in an inferior device. Likewise, improper application of the daylight fluorescent materials—even those of Switzer manufacture—would be bound to render the device unsatisfactory. Also, daylight fluorescent materials used on devices subjected to more than 30 days outdoor exposure, even when properly applied, would lose their striking effect thereafter. Therefore, the limitations of daylight fluorescent materials and devices and their proper uses had to be thoroughly understood by all concerned and *could not be disregarded.* Switzer met the problem by issuing trademark licenses whereby the nature and quality of the goods could be controlled and made to conform to the requisite standards (App. 70-71).

Since Switzer then held issued patents on devices and had several patent applications pending relating to materials and other devices, such licensees were granted an ancillary license under all relevant Switzer patents and applications in order to assure each licensee that Switzer would not exercise any of its patent rights against the licensee or its customers (App. 71).

The basic trademark *license to manufacturers* of DAY-GLO devices was captioned "'DAY-GLO' License and Agency for Manufacturers of DAY-GLO Devices" (App. 141-44). It gave the licensee, as an agent, the right to manufacture and sell "under the trademark DAY-GLO, completed advertising, decorative, signaling, amusement, novelty and other devices, all of which completed devices are daylight fluorescent in whole or in part."

This basic license,* after granting the trademark license, provided:

> "As a consequence of and to the extent required by the grant of the foregoing agency and trade-mark license, Switzer Brothers, Inc. concurrently grants to Licensee a non-exclusive United States license to make and sell the aforesaid DAY-GLO devices under one or more of United States Patents Nos. 2,417,384, 2,417,383, 2,302,645, 2,277,169, 2,475,529, 2,498,592 and 2,498,593 under other pertinent pending Switzer applications for United States patents, under patents which may issue upon the pending applications and under any further pertinent improvement patents to which Switzer Brothers, Inc. may acquire licensing rights."

The next paragraph of the license provided for quality control, as follows:

> "Licensee agrees to use the trade-mark DAY-GLO in its marking, promotion, advertising, and sale of all daylight fluorescent devices manufactured by Licensee, and to promote diligently the sale of said DAY-GLO devices to its customers. In order to maintain the quality and effectiveness of such daylight fluorescent devices at a maximum at all times, Licensee agrees: (a) that the daylight fluorescent materials (as for example, inks, paints, powders, fabrics, yarns,

* The exact language of these licenses became crystallized in March 1950. Prior to that date, slightly different phraseology was used because Switzer was largely limited to granting licenses for the production of devices by the "silk screen" method. By February 1949, the Form C (App. 138-40) was adopted and a number were issued, but by March 1950, Form C was supplanted by Form C-2 (App. 141-44). Earlier licensees were invited to surrender their licenses and accept a Form C-2 license (App. 170-71). Form C-2, with only minor modifications not pertinent here, was used until superseded by the label license in 1953 (App. 71-72, 82-83).

papers, etc.) used in said manufacturer will be only those daylight fluorescent materials which meet the quality standards requisite for DAY-GLO devices and have been approved in writing by Switzer Brothers, Inc., and (b) to comply fully with the instructions for the use of said daylight fluorescent materials in the manufacture and use of said DAY-GLO devices, as said instructions are furnished to Licensee by Switzer Brothers, Inc. or by authorized agents."

The license further required the licensee to submit quarterly reports and make quarterly royalty payments based upon the cost of daylight fluorescent materials utilized in the finished device—regardless of the source of such materials. All such licenses were cancellable by the licensee on sixty (60) days' notice. This license, on a standard printed form, was available to any device maker. Several thousand were issued.

To broaden the distribution of quality daylight fluorescent materials, on January 25, 1949, Switzer licensed The Sherwin-Williams Company, a large paint manufacturer, to make and sell daylight fluorescent coating compositions under Switzer patents and patent applications to customers licensed to make DAY-GLO devices. (App. 111-117.) This contract contained numerous provisions concerning use of the trademark on such products and concerning control of quality. Sherwin-Williams agreed to manufacture strictly and solely in accordance with Switzer approved "formulations," which term was "understood to include all other ingredients compounded with 'DAY-GLO' daylight fluorescent materials, the proportions thereof, the conditions of compounding as to temperature, time, and the like, the compounding machinery employed and operation thereof, the packing materials and equipment used, and the conditions of shipment and storage." (¶ 4 B, App. 114-15). Sherwin-Williams, as Switzer's agent, was au-

thorized to issue DAY-GLO device licenses in the standard printed form and agreed to furnish Switzer with the names of such licensees. Switzer reserved the exclusive right to revoke and reissue DAY-GLO licenses, and Sherwin-Williams agreed not to sell DAY-GLO materials to any licensee whose license had been revoked. Switzer agreed to provide all such DAY-GLO licensees with instructions for obtaining and maintaining requisite quality. Provision was made for printing a notice of the limitations of use of the DAY-GLO compositions on the Sherwin-Williams containers. Provided such instructions were followed and limitations observed, Switzer assumed responsibility for any failure of licensed daylight fluorescent coating compositions to meet such express or implied warranties of use. Subsequently other licenses were issued to other manufacturers, including one to Crocker Burbank Papers, Inc., to manufacture daylight fluorescent coated papers and cardboard (App. 121-26, 130-34). This was issued in June 1951. Up to that time petitioners had done little in the coated paper field. This had been respondents' principal product.

Pursuant to the requirement of the Lanham Act that the licensor of a trademark control the nature and quality of the goods manufactured by the licensee (15 U. S. C. 1055 and 1127), Switzer exercised most diligent efforts to insure that all of its DAY-GLO licensees preserved the quality of the devices manufactured by them (a) by utilizing materials whose quality was satisfactory; (b) by applying these materials strictly in accordance with Switzer's instructions; and (c) by discouraging the sale of finished devices for long term outdoor exposures.

Switzer, by bulletins, written instructions and personal contact, instructed, educated and assisted DAY-GLO licensees in the proper utilization of component materials

to produce DAY-GLO devices of requisite quality (App. 83-85, 177-78, 256-60, 325-36).

Switzer did not foreclose unlicensed competitors from selling daylight fluorescent materials of requisite quality to DAY-GLO licensees. On the contrary Switzer invited unlicensed competitors by public advertisement and public and private solicitation to submit daylight fluorescent materials for testing and approval as to quality (App. 77-78, 178-80). Thus, though Switzer originally disapproved daylight fluorescent inks manufactured by Interchemical Corporation which, when tested, failed to meet DAY-GLO standards (App. 103), it did subsequently approve Interchemical ink for use by DAY-GLO device licensees when the quality was improved (App. 103). Interchemical did not request a license to manufacture DAY-GLO inks until many months after such approval had been given.

Switzer's efforts to encourage competitive manufacturers of daylight fluorescent materials to submit their products for testing and approval for use by DAY-GLO licensees specifically included Radiant. In 1949, the first year of Radiant's operation, Switzer officers had numerous conferences with Radiant and companies affiliated with it (App. 38-42). In December, 1949 Switzer invited Radiant to submit its coated paper for testing and offered to approve Radiant materials which were used in making devices by associated companies and which appeared to meet DAY-GLO quality standards. In addition Switzer invited these associated companies to take a DAY-GLO trademark license (App. 220-24). Radiant, however, consistently refused to submit any of its products to Switzer for testing (App. 54-55). Radiant never requested either a patent or a trademark license from Switzer.

On occasion DAY-GLO licensees inquired whether Switzer would approve the use of materials made by un-

licensed producers (App. 310). Switzer advised that approval would be granted where the quality was adequate for the specific application (App. 79-80, 311), and Switzer did approve materials of unlicensed producers where the quality was adequate (App. 35, 80-82, 312-13).

By late 1952, Switzer daylight fluorescent materials had been substantially improved. Their stability to light had been greatly increased and they were much simpler to use. Through the vigorous and continuous efforts of Switzer, DAY-GLO licensees had learned well the requirements for proper application and the limitations on the use of daylight fluorescent displays; they had become thoroughly aware of the necessity for maintaining quality standards (App. 261-65).

Beginning in October 1952 the patented DAY-GLO coated papers and cardboard made by Crocker Burbank as a Switzer licensee, began to be sold bearing a royalty paid patent label license, and such sales were made to any customer whether or not the customer held a DAY-GLO trademark license. The patent label license recited:

> "NOTICE: '*DAY-GLO*" PAPERS ROYALTY-PAID—DAY-GLO paper sold herewith is licensed for use in completing daylight fluorescent articles covered by *U.* S. Patents Nos. 2,417,384; 2,498,592, and other pertinent Switzer patents. This does not give you a license to use the trade mark DAY-GLO on your daylight fluorescent articles or to use daylight fluorescent materials other than the paper sold herewith. If you desire such a license, apply to Switzer Brothers, Inc., of Cleveland, Ohio, or authorized licensing agent. The above patent numbers are to be marked on completed articles according to U. S. Patent Laws." (App. 263.)

By October 1953, Switzer felt that the education of the trade had progressed far enough so that there was relatively little hazard in selling its patented DAY-GLO paints

and inks to all who desired them. It thereafter placed a similar label license on its patented DAY-GLO inks and paints (App. 201, 258-60). The label license merely stated:

> "Purchase hereof constitutes a royalty-paid license to use only these contents under U. S. patents (6 in number, including the '384 and '529 patents) and Canadian patents (3 in number)."

Since that time Switzer materials have been sold to anyone whether or not he held a trademark license.

In the years prior to 1953 Switzer filed and prosecuted a number of infringement suits against unlicensed persons believed to be infringing patents '384 and '529. These suits were filed in the bona fide belief that said patents were valid and infringed. The District Court expressly so found. The initial decisions in such suits held these patents valid and infringed and Switzer by advertisement and letter notified the trade of the existence of these patents and of the court decisions.

The instant suit was originally filed in June of 1952 by petitioners against 16 firms in and about Chicago who were claimed to be infringers. Radiant intervened in the suit and asserted its anti-trust counter-claim against petitioners. In February 1953 the Court of Appeals for the Fifth Circuit, in the second case in that circuit involving the validity of the Switzer patents, by a two-to-one decision reversed the District Court and, for the first time, held Switzer patent '384 invalid. Since this decision petitioners have filed no additional suits for infringement of patents '384 or '529. The '529 patent has never been adjudicated invalid.

In June of 1950, at the instigation of respondents, the Department of Justice filed, in the District Court in San Francisco, an anti-trust suit against peti-

tioners. After extensive pre-trial proceedings this suit was terminated by the entry of a consent decree in October 1953 (App. 266-280). Under the consent decree petitioners agreed that they would file no infringement suits respecting patents '384 or '529 (App. 270-71). They were permitted to continue issuing licenses combining trademark and patent rights provided any licensee at its option could accept either one (App. 277-78). Petitioners have in all respects complied with the consent decree since its issuance. The instant suit was not affected by the decree. In 1956 its patent infringement aspects were dismissed for lack of indispensable parties plaintiff. It was continued, however, by reason of the anti-trust counter-claim asserted by respondents, but patent validity was not in issue (App. 352). It was tried in the District Court for approximately four weeks in October 1958, and was decided by the District Court in August 1960 by the entry of the court's findings of fact, conclusions of law, and judgment (App. 347-361). Petitioners appealed to the Court of Appeals for the Seventh Circuit and respondents filed a cross-appeal seeking to have the "DAY-GLO" trademark cancelled. The Court of Appeals affirmed the District Court.

The source of the District Court's jurisdiction in this case is 15 USC § 15, conferring jurisdiction on the federal courts to entertain treble damage suits under the anti-trust laws.

REASONS FOR GRANTING THE WRIT.

1. The Court of Appeals Misinterpreted the Trademark License.

The Court of Appeals held that the basic licenses used by petitioners tied the right to the use of patents to the use of the DAY-GLO trademark, and both to the exclusive use of Switzer produced or Switzer approved materials, and held that such a combination was a *per se* violation of the anti-trust laws. In this we submit the Court of Appeals was in error. The "tie in" that has been condemned by this Court and held to be a *per se* violation of the anti-trust laws was defined by this Court in *Northern Pacific Railway Co. v. United States*, 356 U. S. 1 (1958) as "an agreement by a party to sell one product but only on the condition that the buyer purchases a different (or tied) product or at least agrees that he will not purchase that product from any other supplier." (pp. 5-6.) Certainly it cannot be said that merely granting immunity from suit for infringement of Switzer patents to one who accepts a license under the DAY-GLO trademark is a tie-in to purchase or refrain from purchasing from any supplier. The license under the Switzer patents was non-exclusive and the most that it could possibly be was a blanket waiver to the trademark licensee by Switzer of any right to file an action for patent infringement. The source of the materials used by the trademark licensee was of no significance so long as they were of approved quality. The fact that the trademark license and the infringement immunity were combined in one document is of no importance. There is no evidence in the record that Switzer refused to grant Radiant or anyone else a separate patent or trademark license. The fact that Switzer offered the trademark license and the patent license together and

urged licensees to accept both does not show that it was impossible for a licensee to obtain one without the other even though Switzer preferred that they be combined. *U. S. v. Loew's, Inc.*, 189 F. Supp. 373, 380 (S. D. N. Y. 1960).

> "In the first place, it is clear that the defendants had a legal right to *offer* their films in blocks or groups. An *offer* to license in blocks or groups is not illegal, but a conditioning of the license of one or more films upon whether or not other feature films were also licensed is illegal."
>
> "* * * They [defendants] had a right to license films in blocks or packages and to use arguments to persuade the licensees that it was desirable to purchase the films in blocks or packages rather than individually. Illegality would enter only when representatives of the defendants refused to do business in any way other than by licensing the feature films as part of a package." (p. 380.)

In a new enterprise where quality control was as vital to success as it was here, restrictions on the manner of use have been recognized as proper, and we submit that under the evidence in this case the unique and peculiar circumstances of the industry required meticulous control of the manner of use by those seeking and accepting a license under the DAY-GLO trademark. *United States v. Jerrold Electronics Corp.*, E. D. Pa. 187 F. Supp. 545 (1960), affirmed *per curiam* 365 U. S. 567 (1961). *Dehydrating Process Co. v. A. O. Smith Corp.*, C. A. 1., 292 F. 2d 653 (1961). The Court of Appeals states that the trial court rejected the evidence of the "new industry" rule exemplified in these two cases, but neither of these had been reported prior to the time the trial court entered its findings of fact, conclusion, and judgment in August 1960. The evidence of the petitioners' disastrous commercial ven-

ture in Canada was undisputed, as was the fact that the petitioners and respondents both recognized early in the game that the "careless or improper use of inferior materials would definitely have a harmful effect on the entire future of daylight fluorescence." (App. 221.)

The so-called tie-in provisions of the DAY-GLO trademark license were discontinued after one year, so far as the manufacture and sale of daylight fluorescent coated paper was concerned; no such paper was sold under license from petitioners until Crocker Burbank commenced such sales in the fall of 1951, and such sales were discontinued after the adoption of the label license on sales of coated paper in the fall of 1952. The quality of daylight fluorescent coated paper could largely be built in at the factory, and there was not the same opportunity for misuse of it by the user as there was for misuse of the paints and inks. But, even so, the so-called tie-in provisions of the DAY-GLO trademark license were discontinued with respect to paints and inks in the fall of 1953, when the label license was adopted for all of petitioners' products.

Therefore, the same result obtained here that was held to be proper in the *Jerrold* case, *supra*, namely that restrictions which might be unreasonable in an established industry would be upheld as proper in pioneering a new technology, but that such restrictions should be relaxed when the industry became established. Petitioners were entitled to impose and insist upon such controls at the outset. The reputation of DAY-GLO materials and devices was at stake. The exact extent to which such controls were necessary in this particular enterprise was prescribed by the delicacy of the goods produced. See *A. Bourjois & Company v. Katzel*, 260 U. S. 689 at p. 692 (1923), in which Mr. Justice Holmes, referring to the characteristics of a trademark, stated:

> "It deals with a delicate matter that may be of great value but that easily is destroyed and therefore should be protected with corresponding care * * *."

To the extent that the controls have a rational relationship to the frailty inherent in the product, they must be regarded as reasonable and, if reasonable, are legally permissible. (*Coca-Cola Co. v. J. G. Butler & Sons*, 229 Fed. 224, E. D. Ark. 1916.)

Petitioners were also entitled to use and to protect their trademark. In fact, they were required by the Lanham Act to do so or run the risk of its destruction.

Even prior to the passage of the Lanham Act, the courts protected a trademark owner and recognized that the right of property in trademarks (the symbolization of good will) was of great value, and the only means by which manufacturers and merchants were able to inspire and maintain confidence in the quality and integrity of goods made and sold. The courts also recognized that the public interest required such protection. *Scandanavia Belting Co. v. Asbestos & Rubber Works of America, Inc.*, 257 Fed. 937 (2d Cir. 1919):

> "The right of property in trade-marks has come to be recognized as of immense and incalculable value. Trademarks, it has been truthfully said, are the only means by which the manufacturer and the merchant are enabled to inspire and retain public confidence in the quality and integrity of things made and sold, * * *." (257 Fed. at 941.)

2. The Label License Was Properly Placed on Petitioners' Patented Materials.

The Court of Appeals was also in error in its decision respecting the effect of petitioners' label licenses adopted in 1952 and 1953, when the trademark licenses were discontinued. It erred as well in its construction of 35 USC § 271(d) (which was erroneously referred to throughout the opinion of the Court of Appeals as 15 USC § 371(d)). The Court of Appeals held that § 271(d) applied only to components of a patented combination which are: "not a staple article or commodity of commerce suitable for noninfringing use," which term is used in § 271(c). There was no showing that petitioners' products had any substantial non-infringing use. They were manufactured for and peculiarly suited for use in making petitioners' patented daylight fluorescent end devices. The mere fact that petitioners, by the label license, assured any purchaser of the patented material bearing such label that the purchaser might use such material for its obviously intended purpose of making patented daylight fluorescent end devices, and that the purchase price included the royalty, could not conceivably have had any detrimental effect upon the trade or conceivably be said to have been a misuse of any end device patents. All the materials sold under the label license were themselves patented. Therefore, the *Mercoid* and companion cases have no possible application here regardless of whether or not 35 USC § 271(c) and (d) constitute a legislative vacation of the rule of those cases.

3. The Expenses Defending Infringement Suits That Were Brought in Good Faith Should Not Be Trebled.

Two patent infringement suits brought by petitioners against makers of daylight fluorescent devices, who were not holders of DAY-GLO licenses, were unaffected by the government consent decree entered in October 1953. One was the instant case, which had been filed in June of 1952, and was pending on appeal in the Seventh Circuit on the question of respondents' right to intervene at the time the consent decree was entered. As stated, the infringement aspects of this case were subsequently dismissed in 1956 without trial on the merits, for lack of indispensable parties plaintiff. The second infringement suit had been filed in the District Court for the Northern District of Ohio just a few days before the Fifth Circuit Court of Appeals held the '384 patent invalid. Petitioners undertook to dismiss that case after the consent decree, but dismissal was prevented through the insistence of respondents (who were not parties, but who had assumed the defense) on certain conditions. Consequently that case remained largely dormant until 1956, when the question of lack of indispensable parties plaintiff was raised; the case was dismissed for that reason without any extensive proceedings or trial.

The District Court, on the trial of the anti-trust aspects of the instant case, expressly found (App. 351) that the petitioners had made "the publications and threats, and commenced the litigations, without malice or bad faith, with the belief and understanding that their said patents were valid and their publications and threats warranted by the scope of their patent claims, their trademark registrations for DAY-GLO, and the patent and trademark laws of the United States." This finding was not disturbed by the Court of Appeals. Petitioners were criticized by the

District Court for not following their threats and publications in all cases with infringement suits. Yet, as the matter now stands, petitioners, having been found guilty of violating the anti-trust laws, are subject to responding in treble damages to respondents for expenses incurred in the defense of the two infringement suits in which respondents had injected themselves. Obviously, it is grossly inconsistent as well as harsh and inequitable for petitioners, on the one hand, to be held at fault for not suing all infringers and, on the other hand, to be charged with three times the respondents' attorney fees and other costs in defending infringement suits that petitioners had filed in a bona fide belief that their patents were valid and infringed.

This Court has never expressly decided the question of whether an anti-trust claimant can recover three-fold its attorney fees and other costs in defending infringement suits filed without malice or bad faith. The Court of Appeals for the Seventh Circuit has held that the costs of defending an infringement suit may, on occasion, be recovered three-fold. See *Clapper v. Original Tractor Cab Co.*, 7 Cir. 270 F. 2d 616, and recently in *Dairy Foods Incorporated v. Dairy Maid Products Cooperative, et al.*, 132 U. S. P. Q. 25 (decided December 18, 1961). In those cases there was no express finding, as there is here, that the parties bringing the infringement suits had brought them "without malice or bad faith, with the belief and understanding that their said patents were valid and their publications . .d threats warranted by the scope of their patent claims." The concurring opinion of Judge Schnackenberg in the case last cited, in addition to expressing doubts as to whether such damages should be trebled, also, at least by clear implication, expresses a desire that this Court consider and give a definitive answer to this question.

CONCLUSION.

For the foregoing reasons it is respectfully submitted that this petition for a writ of certiorari should be granted.

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APPENDIX.

OPINION OF THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT.

Before SCHNACKENBERG and KILEY, *Circuit Judges*, and MERCER, *District Judge*.

MERCER, *District Judge*. Appellant, Switzer Bros., Inc., Robert C. Switzer and Joseph L. Switzer, appeal from a judgment granting injunctive relief to appellee and ordering appellants to render an accounting on account of violation of 15 U. S. C. §§ 1, 2 and 14. Harry P. Locklin and Elmer J. Brant, d/b/a Radiant Color Company, prosecute a cross-appeal, contending that the court below erred in failing to enjoin appellants from continuing to use the registered trademark, "Day-Glo," in the marketing of daylight fluorescent materials.

Hereinafter, for convenience, the name Switzer is used to denote Switzer Brothers, Inc., the term appellants is used to denote Switzer, Robert C. Switzer and Joseph L. Switzer, collectively, and the term appellee is used to denote Radiant Color Company.

Switzer, an Ohio corporation which is wholly owned by the individual appellants, Robert C. and Joseph L. Switzer, is engaged in the manufacturing and selling of daylight fluorescent materials, which it markets in interstate commerce under the registered trademark "Day-Glo." At all times since January 1, 1949, appellee has been a competitor of Switzer, manufacturing and marketing daylight fluorescent materials in interstate commerce under the trade name, "Velva-Glo."

The cause was tried upon appellee's counter-claim for injunctive relief and treble damages in which it was alleged that appellants had attempted to monopolize the fluorescent materials market in violation of the antitrust

laws, and appellants' counter-claim against appellee, alleging antitrust violations and unfair competition.[1]

After a trial which lasted for some three weeks, the District Court entered voluminous findings of fact, about some of which the principal issues for decision revolve. The findings are summarized, generally, to the extent deemed necessary to an understanding of the issues, before specific contentions against the findings are treated in relationship to the applicable law.

Daylight fluorescent materials are pigments, liquid colors and coated paper and cardboard which produce brilliant color effects through the phenomenon of fluorescence in response to the visible light of day. End-use products in which such materials are employed include signalling, novelty and advertising devices.

Switzer is the assignee of various patents relating, insofar as here pertinent, to the production of daylight fluorescent devices and displays. Switzer is also the owner of the registered trademark "Day-Glo" which it employs in marketing its fluorescent materials. At all times material to this cause, Switzer marketed its products only through a pyramid of licensed manufacturers and dealers employing such materials. Switzer is, as the court found, the apex of the pyramid, superimposed above at least eight licensed manufacturers of daylight fluorescent materials, licensed dealers in all parts of the United States

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[1] The action was originally commenced by appellants as a patent infringement suit against a number of appellee's customers who are engaged in making and marketing daylight fluorescent advertising displays. Appellee intervened on behalf of its customers and filed answers to the complaint. Pursuant to the mandate of this court, *Switzer Bros. v. Locklin*, 7 Cir., 207 F. 2d 483, appellee filed its counter-claim under the antitrust laws. The patent infringement complaint was subsequently dismissed, and that judgment was affirmed. *Switzer Bros. v. Chicago Cardboard Co.*, 7 Cir., 252 F. 2d 407. The cause was then tried upon the issues raised under the antitrust laws.

and more than 4,000 end-use manufacturers who composed the base of the pyramid.

Under contracts with Sherwin-Williams Company and other manufacturers of pigments, papers and inks, Switzer licensed each manufacturer to use the Switzer patents upon consideration of the manufacturers' agreements that they would market all fluorescent materials manufactured by them under the Day-Glo mark and would sell such materials only to Switzer licensed dealers and end-use device manufacturers. The manufacturers were authorized, with Switzer's approval, to enter into licensing agreements with dealers and end-users.

Switzer, and its licensed manufacturers, entered into contracts with a number of dealers, under which such dealers were licensed to sell Day-Glo materials, upon the dealer's agreement that they would deal only in daylight fluorescent materials which carried the Day-Glo mark and were obtained from Switzer or other sources authorized in writing by Switzer to produce fluorescent materials; that they would sell such material only to Switzer licensees; and that they would not compete with Switzer or with other authorized sources of Day-Glo materials. These dealers, also with Switzer's approval, were authorized to enter into agreements with end-use manufacturers, licensing such manufacturers to use the Switzer patents.

Finally, agreements were made with the more than 4,000 end-use manufacturers under which they were granted a license to manufacture fluorescent end-use devices under the Switzer patents upon their agreement that they would use the trademark Day-Glo on all end-use devices manufactured and that they would buy their fluorescent materials only from Switzer or from other sources approved in writing by Switzer as a supplier of such materials.

Each agreement in the first and last-mentioned categories required the payment to Switzer of royalties, measured by a percentage of volume of business.

No licenses under the Switzer patents were granted to any end-use manufacturer, except under the licensing agreements hereinabove summarized, and except under label licenses adopted in 1952 which granted to purchasers of Day-Glo materials a royalty-paid license to use "only" the purchased materials in devices covered by the Switzer patents.

All materials manufacturers' licenses, all end-use manufacturers' licenses and all label licenses referred specifically to Switzer patents 2,417,384 and 2,475,529 relating to the manufacture of daylight fluorescent devices. The court found, and that finding is not challenged, that the daylight fluorescent materials manufactured by Switzer and its licensees have substantial non-infringing uses not defined in any claim of those patents.

Beginning in early 1949, Switzer charged non-licensees and all users of non-licensed displays with patent infringement through advertisements and news releases in trade papers and through letters and oral communications. Beginning in latter 1949, the same media and methods were employed to threaten all non-licensed manufacturers and all users of non-licensed devices with patent infringement suits. Suits were commenced in widely scattered parts of the United States against unlicensed dealers in daylight fluorescent materials, manufacturers of end-use devices and users of such devices. Two of those suits, including the instant case, were instituted against appellee's customers. The court found that all of this activity was done in furtherance of Switzer's licensing program.

Appellee was in the target area of Switzer's campaign. Switzer licensees and others were advised that appellee's

"Velva-Glo" materials were infringements of Switzer's patents. Appellee's customers were threatened with suit, and ultimately some of them were actually sued. The last was done, as the court found, to deter consumers and prospective consumers from purchasing fluorescent materials produced by appellee.

The court found that the Switzer publications and threats were unauthorized because they purported to claim a monopoly in the whole field of daylight fluorescent displays, were excessive, as Switzer should have known, and were not followed promptly by litigation against all of those to whom they were directed.

Finally, the court found that the Switzer licenses have the effect of lessening competition and creating a monopoly in daylight fluorescent materials, that the individual appellants participated in the illegal acts, that appellee was damaged in respects to be hereinafter noted, that an injunction should issue and that appellants should account to appellee in treble damages as determined by a subsequent accounting.

By its judgment order the court decreed that appellants had misused the Switzer patents and the Day-Glo trademark in restraint of trade in interstate commerce in violation of the antitrust laws. 15 U. S. C. §§ 1, 2, 14. An injunction was ordered restraining appellants and each of them:

(a) from granting any license to use the combination claimed by said Switzer patents 2,417,384 and 2,475,529, where such licensed use is directly or indirectly conditioned on purchasing or otherwise obtaining only from Switzer Brothers Inc., or from sources designated by it, any daylight fluorescent materials to be used in such combination, but not patented by such patents;

(b) from selling or offering to sell any daylight fluorescent materials, with an undertaking or understanding that the purchaser will be granted the right to use the combination claimed in said Switzer patents on condition that such daylight fluorescent materials, unpatented with respect to said patents, shall be purchased only from Switzer Brothers, Inc., or from a source designated by it;

(c) from in any way discriminating in the granting of licenses to use the combination claimed in said Switzer patents, in favor of users or proposed users of such combination who purchase daylight fluorescent materials therefor from Switzer Brothers, Inc., or from a source directed by it, and against such users or proposed users who purchase such daylight fluorescent materials from any other sources;

(d) from so using said Switzer patents as to tend to create a monopoly in daylight fluorescent materials not patented by such patents, or in any way, directly or indirectly, misusing such patents, in violation of the anti-trust laws of the United States, particularly United States Code, Title 15, Sections 1, 2, and 14;

(e) from bringing suit against or in any way threatening the customers of Radiant Color Company with suits for alleged infringement of said Switzer patents on account of the sale and use of daylight fluorescent materials which have been obtained from Radiant Color Company and are not embraced by the claims of said patents;

(f) from making representations that the Switzer patents cover fluorescent materials produced by Radiant Color Company, or devices made from such materials, which are not embraced by the claim of said patents.

The decree also referred the cause to a special master to take and report an accounting of appellee's damages.

Appellants' principal contention for reversal is that Switzer's licensing policy and appellants' practice thereunder was not a violation of the antitrust laws, but was a lawful business practice legitimately pursued. Since the trial court entered findings opposed to that contention, the issue resolves itself into the question whether the findings of fact leading to the judgment that the antitrust laws were violated are supported by the record.

We reject at the outset appellants' contention that we are concerned only with construction of written contracts, and therefore Rule 52 (a), Fed. R. Civ. P., 28 U. S. C. A., does not apply. The basic licenses used by appellant tie the right to the use of patents to the use of the Day-Glo trademark, and both to the exclusive use of Switzer produced, or Switzer approved materials. The combination thereof is, *per se*, a violation of the antitrust laws, *International Salt Co. v. United States*, 332 U. S. 392; *Standard Sanitary Mfg. Co. v. United States*, 226 U. S. 20, unless the evidence requires a finding that the unique circumstances of the industry required adoption of a tie-in program, otherwise unlawful, as a legitimate business practice. *E.g., United States v. Jerrold Electronics Corp.*, E. D. Pa., 187 F. Supp. 545, aff'd *per curiam*, 365 U. S. 567. Thus, the issue is one to be determined from the record evidence of Switzer practices. That issue depends upon a voluminous record, composed of testimonial and exhibit evidence. Rule 52 (a) is particularly applicable to such a record. *International Boxing Club v. United States*, 358 U. S. 242, 252; *Timken Co. v. United States*, 341, U. S. 593, 596-97; *Milwaukee Towne Corp. v. Loew's Inc.*, 7 Cir., 190 F. 2d 561, 564-65, cert. denied 342 U. S. 909.

Upon the question whether the findings are supported by the record, the license agreements themselves support

the monopoly findings. The patent licenses were conditioned upon the use of the Day-Glo mark. From Switzer, at the apex, to the more than 4,000 end-use manufacturers at the base of the pyramid of Switzer control established by the licenses, all were required to place the Day-Glo trademark upon all raw materials and end-use devices produced. Each licensee agreed, as a condition of the license, that only materials manufactured by Switzer or approved by it in writing might be used in the production of fluorescent displays. Switzer's licensed manufacturers and dealers were enjoined by their license agreements not to sell to any person other than Switzer licensees.

The evidence apart from the licenses reveals that Switzer refused to sell fluorescent materials to persons other than its licensees, and that no materials were ever approved for use by its licensees except materials produced by manufacturers who held a Switzer license. Appellant's argument that non-licensed materials which met Switzer quality standards would have been approved after testing by Switzer is refuted by Switzer correspondence conditioning approval upon acceptance of a Switzer license and the payment to Switzer of royalties.

There is ample proof that appellants made excessive and reckless claims of patent infringement in the furtherance of their licensing program. Their patents were limited to certain end-use, combination devices and appellants do not challenge the finding that the basic fluorescent materials had substantial non-infringing uses. Yet, the patents were asserted by appellants as a monopoly on all fluorescent materials and all daylight fluorescent displays. This is demonstrated by evidence of Switzer's position that every fluorescent display which was not marked with the Day-Glo trademark was an infringement of its patents.

The record amply supports the finding and conclusion that the Switzer licensing program was conceived and employed to foster a Switzer monopoly in the daylight fluorescent industry. The licenses required, as a condition for the grant thereof, that the licensee purchase all materials from Switzer, or sources approved in writing by it, not only for production of the patented devices, but also for the production of all daylight fluorescent devices. The grant of the patent license was also conditioned upon the licensees accepting the Switzer Day-Glo trademark. These are precisely the type of tie-in schemes which have been frequently condemned by the Supreme Court. *Automatic Radio Mfg. Co. v. Hazeltine Research*, 339 U. S. 827, 830-32; *International Salt Co. v. United States*, 332 U. S. 392; *Mercoid Corp. v. Minneapolis-Honeywell Reg. Co.*, 320 U. S. 680; *Mercoid Corp. v. Mid-Continent Inv. Co.*, 320 U. S. 661; *Morton Salt Co. v. Suppiger Co.*, 314 U. S. 488; *Ethyl Gasoline Corp. v. United States*, 309 U. S. 436; C.f., *Northern Pacific R. Co. v. United States*, 356 U. S. 1; *United States v. Paramount Pictures, Inc.*, 334 U. S. 131.

Appellants attempt to justify their licensing program and activities in furtherance thereof by reference to the principles applied in *United States v. Jerrold Electronics Corp.*, E. D. Pa. 187 F. Supp. 545, aff'd *per curiam*, 365 U. S. 567, and *Dehydrating Process Co. v. A. O. Smith Corp.*, 1 Cir., 292 F. 2d 653. They urge upon us evidence that appellants had suffered a disastrous experience in Canada from uncontrolled sales of fluorescent materials, and that their licensing program in United States marketing was designed to permit control of the quality and method of use of the materials in order to forestall a repeat of the Canada fiasco.

Appellants' position is without merit. The trial court rejected the evidence now urged upon us, and its failure to enter findings with respect thereto is tantamount to findings adverse to appellants upon the evidence. *Container Patents Corp. v. Stant*, 7 Cir., 143 F. 2d 170, 172, cert. denied 323 U. S. 734. Furthermore, the findings entered by the court imply its rejection of the argument now asserted. Even upon the unsatisfactory presentation here,[2] we are convinced that those findings are unassailable.

Therein is found a basic point of distinguishing this cause from the *Jerrold* and *Dehydrating* cases. In each of those cases, the trial court found that practices, presumptively in violation of the antitrust laws, were, in fact, a legitimate exercise of business practice. Here, by contrast, the court found upon conflicting evidence that appellants' activities were unlawful both *per se* and in fact. That finding is unassailable in this Court unless it is demonstrated to be clearly erroneous. Fed. R. Civ. P. 52 (a), 28 U. S. C. A.

An analysis of *Jerrold* and *Dehydrating* discloses, also, that each is inapposite factually to the case at bar. Jerrold was a new business, pioneering the development of a master television antenna, designed to pick up television signals at a central tower for transmission and distribution by cable to whole communities which were out of the range of normal television reception. Its first sales of equipment were made on an experimental basis before

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[2] The transcript of the trial comprises almost 4,000 pages of testimony. The appendix presented by appellants is composed of skimpy excerpts from that mass of testimony, and it falls far short of the intendment of our Rule 16(b), 28 U. S. C. A. We have not resolved the appeal upon the basis of the Rule, see *A. O. Smith Corp. v. Pre-Fab Transit Co.*, 7 Cir., 287 F. 2d 210, because the appendices presented show beyond doubt that the findings of the court below are sustained by the evidence.

the system was perfected, with Jerrold agreeing to furnish without further charge such new equipment and modifications of equipment as experimental use of the installations might prove to be necessary. Thereafter, Jerrold, who manufactured only parts of the total system, sold its equipment only on a full-system basis, with the buyer agreeing that he would buy only equipment approved by Jerrold for repairs or expansion of the system and with the buyer accepting a compulsory service contract under which the equipment would be serviced by Jerrold engineers. The court characterized the tie-in arrangements as, *per se*, unreasonable, but held it to be a legitimate business arrangement at its inception, for the reason that Jerrold was pioneering a new technology, not then perfected, which was likely to succeed and gain public acceptance only if control of the equipment were retained by Jerrold who was familiar with the technological limitations and problems involved. The court held, however, that continuation of the tie-ins by Jerrold after the system was perfected was an unreasonable restraint and a violation of the antitrust laws.

In the *Dehydrating* case, it was charged that the sales practice adopted by Smith of selling its patented silo-unloading device only for use in its own patented, glass-lined silo was a tie-in prohibited by the antitrust laws. Smith's unloader, installed inside at the bottom of a silo or storage bin, used a sweep arm to direct stored material from storage through a slot in the base of the silo or bin. Successful operation of the unloader required an unimpeded, gravity down-feed of the stored material onto the unloader. When the unloader was first marketed, it was sold by Smith without restriction as to its use. The tie-in policy was adopted some 7 years later, after 50% of Smith's customers, who had purchased the unloader for

installation in silos other than Smith's, had complained of malfunctions resulting from construction characteristics of the silos which impeded the free gravity feed of material to the unloader.

The Court of Appeals stressed three points in affirming a judgment for Smith upon a directed verdict, namely, (1) that 50% customer dissatisfaction was substantial evidence of the reasonableness of Smith's policy of selling the unloader only for use in its own silos, (2) that there was no evidence that anyone other than Smith manufactured a silo or storage bin with the specifications necessary for successful use of the unloader; and (3) that Dehydrating had not sustained the burden of proving any damage to it from Smith's sales practice.

As the court pointed out in the *Jerrold* case, a defendant claiming a business reason for tie-in sales, as opposed to an attempt to restrain trade, has the burden of proving the existence of facts necessary to support his claim. 187 F. Supp. at 560. The court below found, at least by implication, that appellants had not sustained that burden. We agree. There are no factors here present which are comparable to the facts of either *Jerrold or Dehydrating* which the courts there felt excused tie-in sales from censure.

The licenses used by Switzer are not properly characterized as trademark licenses as appellants would have us do. The quality-control provisions of the Lanham Act, 15 U. S. C. §§ 1051, *et seq.*, relating to trademark licenses, cannot be construed to condone a violation of the antitrust laws. *Timken Co. v. United States*, 341 U. S. 593, 599.

Section 371 (d) of Title 15, U. S. C., does not justify Switzer's label licensing program as appellants contend. That section applies to components of a patented combination which are "not a staple article or commodity of com-

merce suitable for noninfringing use." 15 U.S. C. 371 (c). Switzer's label licenses tied sales of its materials to the Switzer patents despite the fact that the materials were suitable for substantial noninfringing uses. The trial court found that the label licenses had the effect of restraining trade and fostering a Switzer monopoly in the daylight fluorescent industry. No reason is apparent of record to disturb that finding.

Indeed, appellants' argument on Section 371(d) depends largely upon a misconstruction of the statute, namely, that the Act constitutes a legislative vacation of the rule of the *Mercoid* and other cases that the monopoly of a combination patent extends only to the totality of the combination, and cannot be asserted as a monopoly upon the separate component elements of the combination. That rule was reaffirmed and applied in the recent case of *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 365 U. S. 336, 5 L. Ed. 2d 592, 598 (1961). That case removes all arguable validity of the contention now asserted.

One final contention of appellants upon the question of antitrust violations must be briefly mentioned. An antitrust suit filed by the United States against Switzer, Sherwin-Williams and others was terminated by a consent decree entered by the United States District Court for the Northern District of California on October 22, 1953. Appellants urge that decree in refutation of the findings that Switzer's licensing policies still have the effect of lessening competition in the fluorescence industry.

The consent decrees, entered without a trial of the issues in the government suit, enjoined enforcement of the tie-in features of Switzer's licenses and enjoined appellants from engaging in the type of conduct adjudicated in this case. Appellants argue that they have amended their ways in accordance with the restrictive provisions of that decree.

On the other side of the blotter, however, the court below, after a trial of some three weeks' duration, found that appellants were still violating the anti-trust laws and that appellants' licensing and trade policies still have the effect of lessening competition in the industry. We cannot say on the record before us that those findings are clearly erroneous.

Appellants next contend that the findings that appellee was damaged by appellants' illegal conduct are not supported by the evidence.

Appellants' attack is spearheaded by the argument that the evidence does not support finding 28 that the general public was damaged by appellants' conduct, by reason of the fact that the public was deprived of an opportunity to purchase fluorescent materials in a free market not affected by appellants' unlawful practice. We reject that argument upon the record, and we note, also, that the argument is specious even if the finding of public injury were not supported by the record. Congress has determined that public injury is inherent in every monopolistic practice or restraint of trade in violation of the Sherman Act, *Klor's v. Broadway-Hale Stores*, 359 U. S. 207, 211. In a treble damages action under the Clayton Act the statutory criteria for recovery are satisfied when a plaintiff has alleged and proved an unlawful restraint of trade and damage to himself growing out thereof. *Radiant Burners v. Peoples Gas Co.*, 364 U. S. 656.

Appellants' argument that the evidence fails to show that appellee's loss of sales which is reflected by the record resulted from appellants' unlawful conduct is rejected for two reasons. First, we will not disturb the findings, made upon conflicting evidence, that appellee's sales were restricted as a result of the unlawful conduct. Secondly, we think appellants' contention rests upon a misconstruction

of the law which would make injury compensable under the antitrust laws only if the unlawful conduct found to exist stood alone as the causation of the injury. A violation of the antitrust laws is answerable in treble damages for injury to another by the unlawful act even though other factors may have contributed to the injury. *Bigelow v. RKO Radio Pictures*, 327 U. S. 251, 264-65; *Story Parchment Co. v. Paterson Co.*, 282 U. S. 555, 566; *Momand v. Universal Film Exchanges*, 1 Cir., 172 F. 2d 37, 43; *William Goldman Theatres, Inc. v. Loew's Inc.*, E. D. Pa., 69 F. Supp. 103, aff'd 164 F. 2d 1021.

The court below found that both this suit and a suit in Ohio against appellee's customers were instituted in furtherance of Switzer's unlawful licensing program and that appellee's expenses incurred in defending its customers is an element of its damages. That finding is supported by the evidence and is correct in legal principle. *Clapper v. Original Tractor Cab Co.*, 7 Cir., 270 F. 2d 616, 623-24, cert. denied 361 U. S. 967; *Kobe, Inc. v. Dempsey Pump Co.*, 10 Cir., 198 F. 2d 416, 424-25, cert. denied 344 U. S. 837. Expenses incurred by appellee in counteracting Switzer's propaganda and threats to appellee's customers was also properly found by the court as an element of appellee's damages. Cf., *Maytag Co. v. Meadows Mfg. Co.*, 7 Cir., 45 F. 2d 299, 302, cert. denied 283 U. S. 843.

We cannot say that the findings that appellee was damaged by appellants' unlawful conduct are clearly erroneous. The elements of damage found are supported by the record and are elements authorized by law. The reference of the case to a master for a determination of the amount of damages is a proper procedure. *LaBuy v. Howes Leather Co.*, 352 U. S. 249, 259.

We have considered other contentions of appellants, including the contention that the court erred in dismissing

appellants' counterclaim. All are found to have no merit. In appeal No. 13193 the judgment is affirmed.

On the cross-appeal in No. 13194, appellee first contends that the court erred in failing to prohibit Switzer's further use of the trademark Day-Glo, in the manufacture and sale of daylight fluorescent materials. Appellee argues that the record reveals that the demand for "Day-Glo" marked goods was induced, in part, by fear and not by the usual elements of good will which establishes a trademark. That argument refers to advertisements and representations by Switzer, made in furtherance of its scheme to monopolize the trade, that Day-Glo is "The Mark of Legality in Daylight Fluorescence"; that "The Law is on your Side" when you call for Day-Glo; and that absence of the Day-Glo mark upon fluorescent materials and advertising devices would subject the manufacturer and user to an action for patent infringement. Finally, appellee argues that the mark has an artificial value arising out of appellants' unlawful, coercive conduct which appellants will continue to realize, if permitted to use the mark, because of public identification of the mark as the only lawful mark in the daylight fluorescence industry.

In the light of the whole record, it seems apparent that the "Day-Glo" trademark became, as a result of appellants' unlawful conduct, vested with an artificial value in the fluorescence field over and above the normal incidence of good will. To that extent, appellee's argument does possess logical persuasiveness.

Something more than logical persuasiveness, however, must be shown before a reversal of the court's decision is required. Not the least of the considerations to be taken into account is the drastic nature of the remedy suggested. It seems to us that divestiture of property

rights in a trademark, by injunction against the mark's continued use, is a remedy which would seldom commend itself to equity in a private suit under the antitrust laws for injunctive relief and treble damages. Even in the context of suits by the United States to restrain conspiratorial monopolies divestiture as a remedy is not without prescription. Thus it is stated that a decree should not penalize by divestiture under "the guise of preventing future violations," *Hartford-Empire Co. v. United States*, 323 U. S. 386, 409, and that the harsh remedy of divestiture should not be employed whenever injunctive relief is adequate to prevent continued wrongdoing. *Standard Oil Co. v. United States*, 221 U. S. 1, 77; dissenting opinion of Mr. Justice Frankfurter, *United States v. du Pont & Co.*, 366 U. S. 316, 335-364. It seems certain to us that divestiture as a remedy in private antitrust litigation should be even more narrowly proscribed, especially in a case such as this where there is lacking a conspiratorial combine of giant economic units of industry[3] and in which the violations stem from the activities of a single supplier of fluorescent materials and its officer-stockholders.

Appellee attempts to support its position by its reference to cases involving conspiratorial combines of large economics forces adjudicated in government antitrust suits. *International Boxing Club v. United States*, 358 U. S. 242; *United States v. Paramount Pictures*, 334 U. S. 131; *United States v. Crescent Amusement Co.*, 323 U. S.

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[3] Examples of that type of situation, in which divestiture was decreed, are *United States v. duPont & Co.*, 366 U. S. 316, *International Boxing Club v. United States*, 358 U. S. 242, *United States v. Paramount Pictures*, 334 U. S. 131, *United States v. American Tobacco Co.*, 221 U. S. 106, *Standard Oil Co. v. United States*, 221 U. S. 1, and *Northern Securities Co. v. United States*, 193 U. S. 197.

173. That reference assumes an analogy which does not exist. A distinction must be drawn between the conspiracy cases, in which divestiture as a remedy has been considered necessary to restore competition, and this case in which competition may be restored by injunction; and divestiture could only remove a residue of benefit which may yet enure to Switzer from its use of the Day-Glo mark.

We have found no reported case of the Supreme Court which would authorize divestiture as a remedy in the situation at hand, and we could not require divestiture in the absence of convincing reasons why that remedy is necessary to prevent continued violations of the antitrust laws.

It is apparent that the court below felt that continued violations of law could be prevented without enjoining the continued use of the "Day-Glo" trademark. Its decree was drafted accordingly, upon its finding that the excessive claims made by appellants of a monopoly in the fluorescence field were made in good faith without a conscious purpose to violate the antitrust laws. We cannot say that that finding is clearly erroneous or that the decree, formulated by the court to meet the adjudicated exigencies of the case, is not a valid exercise of the large discretion with which the court was vested. *E.g., International Salt Co. v. United States*, 332 U. S. 392, 400-401; *United States v. du Pont & Co.*, 353 U. S. 586, 607-608.

Finally, appellee contends that finding 29 should be made more specific. The court found that appellee has been directly damaged by Switzer's licensing program in respects enumerated in that finding "and possibly in others." Appellee contends that the finding, as cast, is ambiguous, and that it should include a specific finding

that appellants' unlawful practices forestalled appellee's normal growth in the industry.

We think it unnecessary to disturb that finding. The conclusions of law and the decree do not purport to limit the scope of inquiry upon the trial as to the amount of damages. The cause is referred to the master to ascertain and report an account of "the damages suffered." Since appellee is not restricted in the scope of its proof before the master, it has no cause to complain that finding 29 might have been more specifically cast.

The judgment is affirmed on both the appeal and the cross-appeal.

JUDGMENT OF THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT.

(November 30, 1961.)

This cause came on to be heard on the transcript of the record from the United States District Court for the Northern District of Illinois, Eastern Division, and was argued by counsel.

On consideration whereof, it is ordered and adjudged by this Court that the judgment of the said District Court in this cause, on both the appeal and cross appeal, be, and the same is hereby, AFFIRMED, with costs, in accordance with the opinion of this Court filed this day.